

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

Applicant:	NCI Affiliates, Inc. (NCI) 496 Linne Road Paso Robles, CA 93446 San Luis Obispo County	Amount Requested:	\$745,000
		Requested Loan Term:	15 years
		Date Requested:	March 26, 2009
		Resolution Number:	HII-238
Project Site:	496 Linne Road, Paso Robles, CA 93446		
Facility Type:	Adult Day Program		
Prior HELP II Loan Borrower:	No.		

Background: Established in 1980, NCI provides rehabilitation and community living service to residents of San Luis Obispo County with mental and/or physical disabilities. Currently, NCI operates two facilities located in Paso Robles.

Uses of Loan Proceeds: Loan proceeds will be used to refinance an existing construction loan with a balance of approximately \$733,000. Refinancing this loan at a lower fixed interest rate of 3% will result in an estimated interest savings of approximately \$134,000 over the life of the proposed HELP II loan.

Financing Structure

- 15-year fixed rate loan.
- 180 equal monthly payments of approximately \$5,145 (yearly payments of approximately \$61,740).
- Gross revenue pledge.
- First lien position on the property located at 496 Linne Road, Paso Robles, CA 93446.
- Loan to value ratio not to exceed 95%, estimated loan to value is 24%, based on the estimated value \$3.1 million, per NCI management.

Financial Overview: NCI's income statement appears to exhibit an improvement in operating results during our review period. NCI appears to have good liquidity and minimal long-term debt. The proforma debt service coverage ratio is a solid 6.55x, indicating that NCI should comfortably be able to repay this proposed HELP II loan.

Sources of Funds

HELP II Loan	<u>\$745,000</u>
Total Sources	<u>\$745,000</u>

Uses of Funds

Refinance current loan	\$733,000
Financing costs	<u>12,000</u>
Total Uses	<u>\$745,000</u>

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends approval of a HELP II loan for NCI Affiliates, Inc. in an amount not to exceed \$745,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

March 26, 2009

NCI Affiliates, Inc.

Resolution Number: HII-238

I. PURPOSE OF FINANCING

***Refinance Current Loan* \$ 733,000**

NCI intends to refinance an existing loan with Santa Lucia Bank. The original loan obtained in 2007 was used to build the facility located at 496 Linne Road, Paso Robles, CA. This loan has a current variable interest rate of 5%, a balloon payment due in May 2009, and a monthly interest-only payment of \$3,115. The loan is secured by real property located at 496 Linne Road (a 15,000 square foot facility), which has an estimated value of \$3.1 million according to NCI management.

In 2006, NCI purchased the land for \$480,000 cash to build the above referenced facility. The facility is licensed for an adult day program for up to 72 developmental disabled adults per day. NCI funded the \$2.1 million in construction costs with financing from Santa Lucia Bank. The refinance of this existing loan will reduce the interest rate from 5.0% to 3.0%, resulting in an interest savings of approximately \$134,000 over the life of the proposed HELP II loan. In addition, it will avoid the balloon payment due in May 2009 and avoid the uncertainty of a variable rate interest loan moving forward.

CHFFA will condition the closing of this loan upon receipt of a full appraisal demonstrating satisfaction of the Authority's maximum loan to value ratio policy of 95%.

<i>Financing Costs</i>		<u>12,000</u>
Escrow fee	\$2,688	
Authority fee	<u>9,312</u>	

***Total Uses of Funds* \$ 745,000**

II. FINANCIAL STATEMENTS AND ANALYSIS

NCI Affiliates, INC.
Statement of Activities
(Unrestricted)

	For the Year Ended June 30,		
	2008	2007	2006
Revenue and support:			
Production Income	\$ 1,608,630	\$ 1,620,301	\$ 1,794,943
Rehabilitation/supported employment	781,379	697,036	515,703
Community supported living arrangement	950,388	1,018,196	957,306
Interest	45,294	33,270	17,292
Other Income	37,986	24,975	33,601
Total revenue and support	<u>3,423,677</u>	<u>3,393,778</u>	<u>3,318,845</u>
Expenses:			
Staff salaries and wages	1,473,188	1,412,295	1,429,377
Consumer salaries and wages	367,533	401,618	424,039
Employee benefits	162,361	178,725	213,005
Payroll taxes	118,900	115,039	117,296
Occupancy	99,466	93,844	81,255
Depreciation	82,811	77,744	67,218
Vehicle expense	72,202	58,568	49,141
Insurance	48,594	60,235	58,066
Materials	44,354	34,504	30,162
Utilities	34,214	29,332	27,837
Advertising and promotion	25,697	19,079	19,571
Equipment rental and maintenance	20,491	27,107	42,255
Communications	19,944	22,848	23,814
Supplies	16,984	20,558	22,771
Payroll Processing	13,904	13,622	13,297
Travel	12,628	14,651	18,059
Miscellaneous	12,272	9,925	26,055
Professional and outside services	11,677	16,759	20,422
Office and organizational expenses	10,896	14,963	14,682
Production supplies	9,229	7,799	5,537
Education and training	6,987	10,117	14,119
Dues, licenses and permits	6,463	9,455	12,653
Postage and printing	5,274	7,662	5,215
Interest	832	953	2,277
Total expenses	<u>2,676,901</u>	<u>2,657,402</u>	<u>2,738,123</u>
Change in unrestricted net assets	746,776	736,376	580,722
Unrestricted net assets, beginning of year	2,811,430	2,075,054	1,494,332
Unrestricted net assets, end of year	<u>\$3,558,206</u>	<u>\$2,811,430</u>	<u>\$2,075,054</u>

NCI Affiliates, INC.
Financial Position

	<u>As of June 30,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$2,049,035	\$1,690,716	\$1,107,349
Accounts receivable	376,639	410,339	398,596
Inventories	6,324	5,497	5,517
Prepaid expenses	29,293	21,585	24,113
Total current assets	<u>2,461,291</u>	<u>2,128,137</u>	<u>1,535,575</u>
Property and equipment, net	685,272	674,027	690,415
Deposits	9,807	14,445	22,377
Construction in progress	2,137,376	133,423	6,115
Total assets	<u>\$5,293,746</u>	<u>\$2,950,032</u>	<u>\$2,254,482</u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and accrued expenses	\$91,847	\$35,427	\$30,855
Accrued Expenses	120,172	103,175	129,726
Notes payable - current portion	1,523,521	0	18,847
Total current liabilities	<u>1,735,540</u>	<u>138,602</u>	<u>179,428</u>
Total liabilities	<u>1,735,540</u>	<u>138,602</u>	<u>179,428</u>
Unrestricted - total net assets	3,558,206	2,811,430	2,075,054
TOTAL LIABILITIES AND NET ASSETS	<u>\$5,293,746</u>	<u>\$2,950,032</u>	<u>\$2,254,482</u>

Financial Ratios:	Proforma (a)			
	<u>FYE June, 2008</u>			
Debt service coverage (x)	6.55	12.75	41.17	32.10
Debt/Unrestricted Net Assets (x)	0.21	0.00	0.00	0.00
Margin (%)		21.81%	21.70%	17.50%
Current Ratio (x)		1.42	15.35	8.83

(a) Recalculates 2008 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

NCI's income statement appears to exhibit an improvement in operating results.

During our review period, NCI posted positive operating results ranging from \$580,000 to \$746,000, seeming to represent healthy operating margins.

Revenues include major components such as production income, which is all of NCI's contract income. This ranges from State contracts, private parties and thrift store retail income. A slight decrease has taken place over the last 3 years due to the loss of private contracts and a decrease in retail sales.

Revenues also include a steady increase over the past 3 years under the line item Rehabilitation/Supported Employment due to the increase in developed contracts and individuals served.

Particular Facts to Note:

- NCI appears to have managed to keep expenses relatively stable during our review period.

Financial Discussion – Statements of Financial Position (Balance Sheet)

NCI's audited balance sheet seems to indicate cash assets have increased each FY during our review period.

NCI's cash position has increased to \$2 million, a healthy 288 days cash on hand. This liquidity provides a solid cash reserve for NCI moving forward. In addition, NCI has minimal leverage with the only long-term debt being the Santa Lucia Bank loan from 2007, which is being refinanced with the proposed HELP II loan. The proforma debt to unrestricted net assets ratio is a modest .21x. The proforma debt service coverage ratio is a solid 6.55x, indicating that NCI should comfortably be able to repay the HELP II loan.

III. UTILIZATION STATISTICS

Average Clients Served (per day) Fiscal Year Ended June 30

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Totals	127	111	118

IV. ORGANIZATION

Background

Founded in 1980, NCI Affiliates, Inc. is a private, non-profit agency initially established to provide rehabilitation and community living services to adults with mental and/or physical disabilities. The agency is governed by a volunteer Board of Directors and employs a staff of 65-plus individuals to administer and provide services through the agencies vocational and community living programs. NCI currently contracts with the Department of Rehabilitation to provide vocational training and job placement services. Additional funding is received from the Tri-Counties Regional Center for long term Habilitation Services and Community Living Services. Other sources of operating revenue include industrial subcontracts with the State of California, several retail businesses, a restaurant, as well as small contracts and fund raising events.

Licenses

NCI is licensed by the State Department of Social Services to operate and maintain adult day program, which is located at 496 Linne Road, Paso Robles, CA 93446.

V. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of June 30, 2008</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing Long-Term Debt:			
Santa Lucia Bank 11/7/07	\$2,100,000	\$1,523,521**	\$-0-
Proposed CHFFA HELP II, 2009		N/A	745,000
TOTAL DEBT		<u>\$1,523,521</u>	<u>\$745,000</u>

*Includes current portion of long-term debt.

** NCI has paid down this loan to approximately \$733,000, from its cash reserves.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Savings Pass Through: SRPP has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): NCI has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION

Staff recommends approval of a HELP II loan for NCI Affiliates, Inc. in an amount not to exceed \$745,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.